

STATE AUDITOR'S OFFICE

An Agency Profile Prepared by the
Legislative Fiscal Division

November, 2016



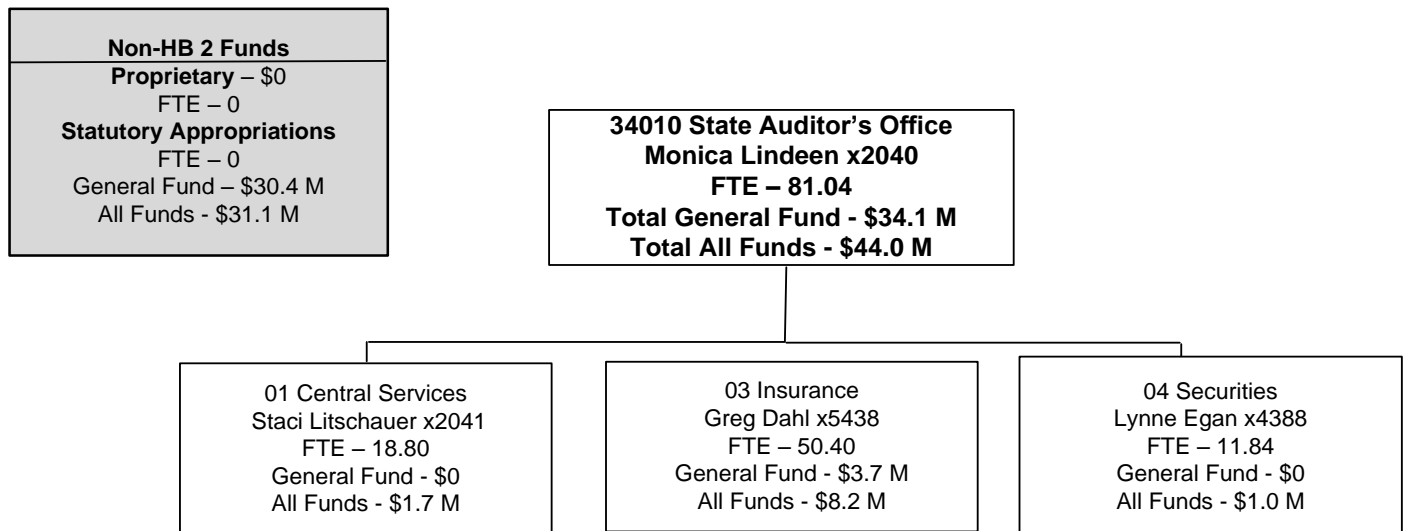
INTRODUCTION

The mission of the State Auditor's Office is to assure compliance with the Montana insurance and securities laws, promote captive insurance formations, support capital formation in the state, and assist consumers with complaints involving the securities and insurance industries. The Auditor is charged with licensing, registering, and regulating insurance companies and producers, securities issuers, salespeople, broker-dealers, investment advisors, and investment adviser representatives within the state. The State Auditor also serves as a member of the Board of Land Commissioners and the Crop Hail Insurance Board.

The Office of the State Auditor is authorized under Article VI of the Montana Constitution and is designated the Commissioner of Securities in 2-15-1901, MCA and the Commissioner of Insurance in 2-15-1903, MCA. In those capacities, the State Auditor's duties are generally defined in Title 30, Part 10 and Title 33 of the Montana Code Annotated. Other statutes related to the State Auditor's Office include:

- State special revenue generated by fees and taxes that support the office are identified and defined in 33-2-705 through 708, MCA
- Unspent collections from securities licenses and permits are deposited into the general fund in accordance with 30-10-115, MCA
- The office manages the Fire and Police Retirement Program (33-2-705, MCA and 50-3-109, MCA)

Below is an organizational chart of the office, including full-time employee (FTE) numbers and HB 2 general fund expenditures and total expenditures from all funds. Unless otherwise noted, all phone extensions are preceded by (406) 444.



HOW SERVICES ARE PROVIDED

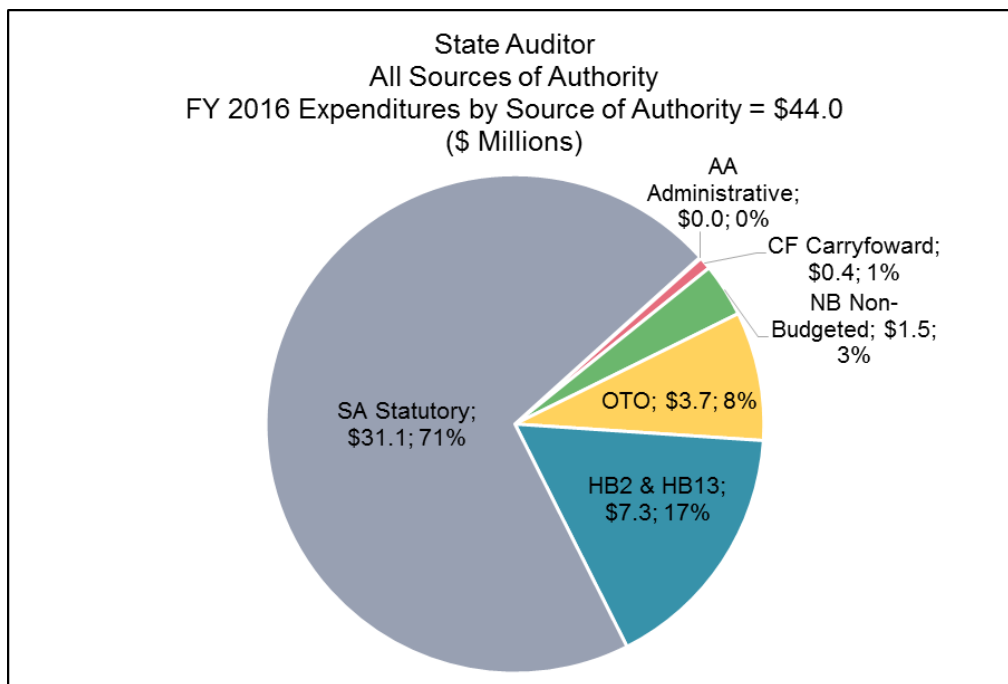
The State Auditor's Office consists of three divisions with the following functions:

- Central Management
 - Provides administrative, personnel, budgeting and accounting functions
 - Provides support in fulfilling the duties as a member of the state land and hail insurance boards
 - Acts as conduit for the distribution of a "pass through" program: the Fire and Police Retirement program.
- Insurance Division
 - Resolves insurance consumer inquiries and complaints involving agents, coverage, and companies

- Investigates insurance code and rules violations, including possible criminal violations, and refers cases to the county attorneys for prosecution
- Monitors the financial solvency of insurance companies operating in Montana through financial analysis and financial examination
- Collects premium taxes and company fees paid by insurance companies operating in Montana
- Reviews rate and form filings to ensure compliance with applicable insurance code
- Licenses and provides continuing education to insurance agents, agencies, and adjusters
- Securities Division
 - Registers security issuers, sales people, broker-dealers, investment advisers, and investment adviser representatives
 - Investigates unregistered and fraudulent securities transactions

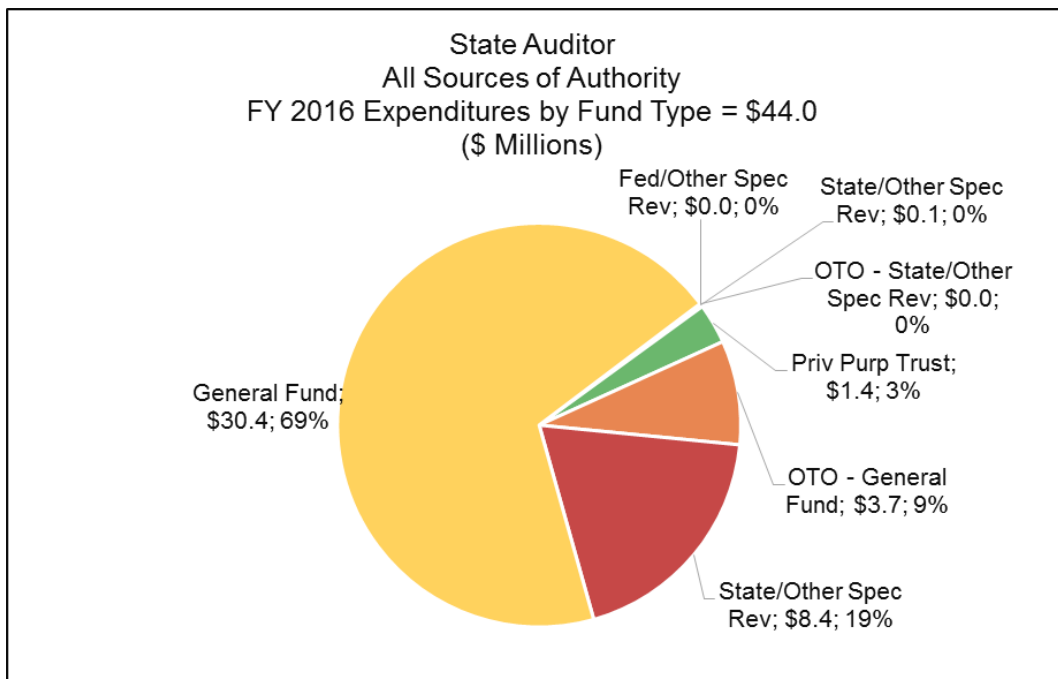
SOURCES OF SPENDING AUTHORITY

The chart below shows the sources of authority for the State Auditor's Office that were expended in FY 2016. The office receives the majority of its spending authority from statutory appropriations.

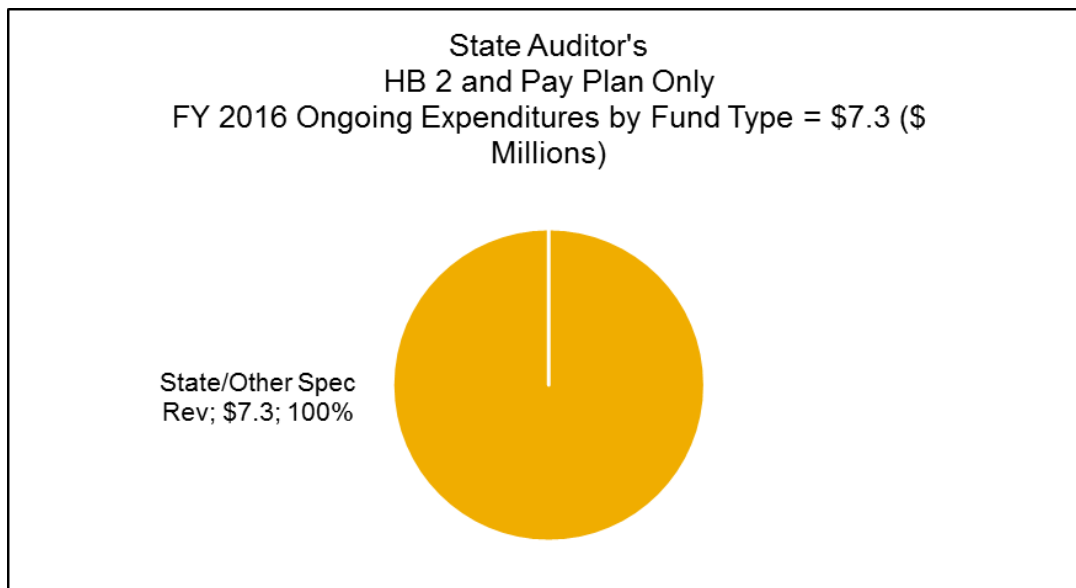


FUNDING

The operations of the State Auditor's Office is funded with state special revenue funds. The State Auditor's Office is responsible for passing through the general fund it receives to police and firefighter retirement programs. The chart below shows FY 2016 actual expenditures by fund type for all sources of authority.

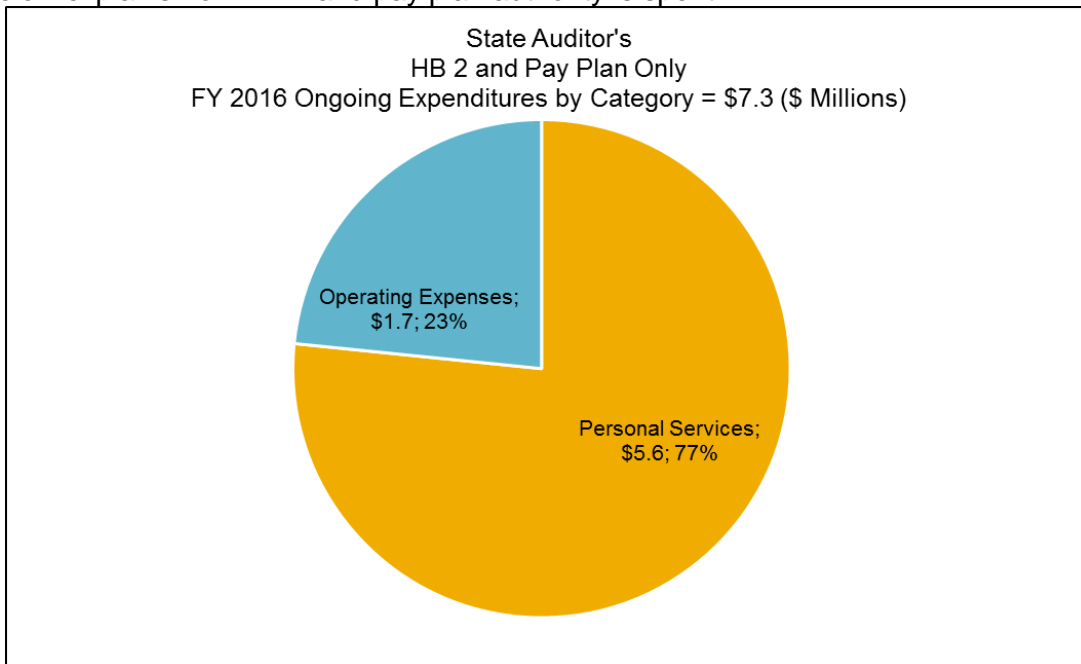


The chart below shows the State Auditor's Office HB 2 and pay plan expenditures by fund type.



EXPENDITURES

The chart below explains how HB 2 and pay plan authority is spent.



HOW THE 2017 LEGISLATURE CAN EFFECT CHANGE

In order to change expenditure levels and/or activity, the legislature might address:

- Laws governing how the insurance and securities industries do business in Montana and how the office conducts licensing, regulation, examinations, and responds to the consumer
- Laws governing the number of insurance and security companies and individuals doing business in Montana
- Laws governing the amount and collection of fees and taxes related to insurance and securities
- Policies on how the agency handles pass-through accounts
- The code of ethics for insurance and security companies doing business in Montana

Other factors that influence costs, but that the legislature is less likely to control include:

- The number of registered complaints and related court dockets
- Federal legislation impacting the insurance and security industries
- Telephone or web-based inquiries from consumers
- Initiatives or legislation responding to citizen action
- The health of the national economy

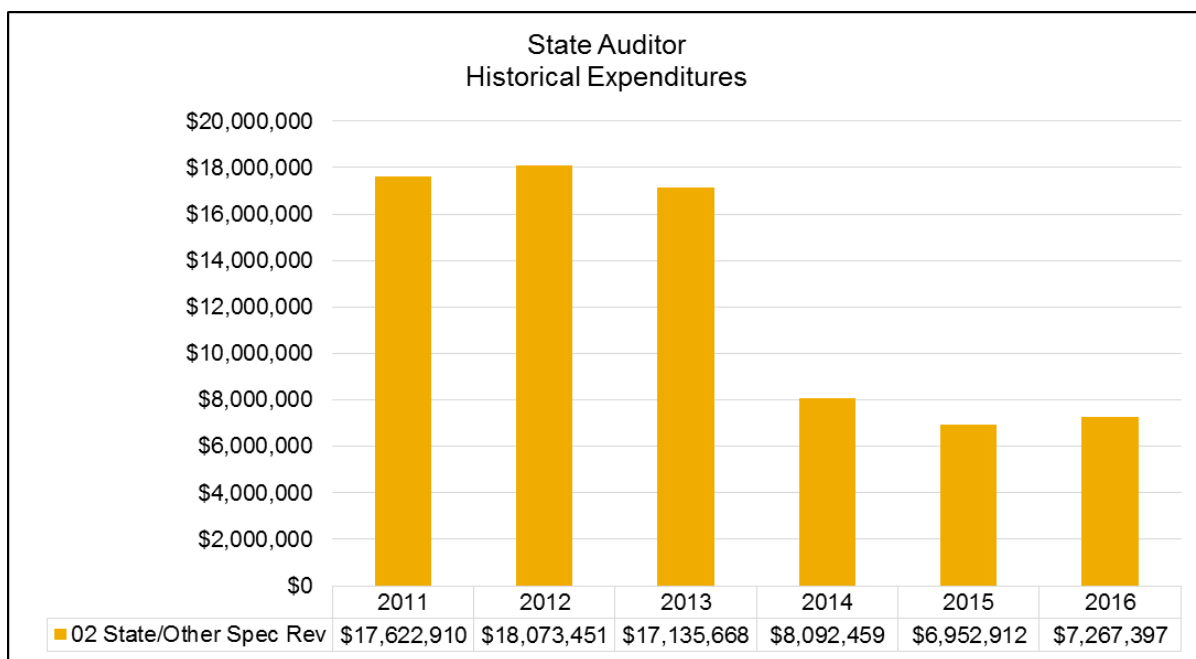
MAJOR COST DRIVERS

The major cost drivers for the State Auditor's Office include:

- The number of insurance companies and the number of securities firms licensed to do business in Montana
- State and federal laws and rules governing the licensing, examination, and monitoring of insurance and security companies
- Major changes in insurance policy that affect individual consumers
- The number of securities fraud investigations and prosecutions

FUNDING/EXPENDITURE HISTORY

The State Auditor's Office budget decreased significantly in FY 2014 due to a change in appropriations for the Insure Montana program. Through 2013, the Insure Montana program was funded from ongoing HB 2 appropriations. In FY 2014, it was funded with a one-time-only appropriation, which is not included in the table below. The legislature used one-time-only funds because the Affordable Care Act (ACA) provides opportunities for small businesses to shop for insurance through the federal exchange and because the major funding source for the program – health and Medicaid initiatives state special revenue – was inadequate to cover ongoing appropriations. The program received one-time-only funding to continue the program through the first half of FY 2016.



MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

Major changes in the last ten years include:

- 2015 Legislature
 - The legislature removed funds to account for the expiration of the Montana Comprehensive Health Association (MCHA), as defined in statute. The MCHA was the high risk pool for the state. Since insurance policies can no longer be denied based on pre-existing health conditions, the MCHA was no longer necessary.
 - The legislature added \$4.5 million general fund to continue the Insure Montana program through December 31, 2015, which allowed funding to continue through calendar year 2015. Since most health policies held by Insure Montana program participants expire at the end of a calendar year, this one-time-only funding provided a full year of support and allowed program participants to plan to obtain insurance in other venues.
- 2013 Legislature
 - The legislature funded the Insure Montana program from a one-time-only appropriation, based eligibility for premium assistance provided by the Insure Montana program on household income rather than an individual employee's salary, and limited premium assistance to households earning no more than 400% of the federal poverty level (about \$94,000 for a family of 4 in 2013).
 - The legislature required insurers to file health insurance rates with the State Auditor's Office to provide documentation supporting the development of the rates. The office is required to

review rate filings for each health insurance insurer and consider whether the proposed premium rate is excessive, inadequate, unjustified, or unfairly discriminatory, and provide a notice of deficiencies if any are found to exist.

- 2011 Legislature

- The legislature authorized funding for oversight of the securities industry related to changes implemented as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

For more information on the agency, please visit their website here: <http://csimt.gov/>.